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DEPARTMENT OF JUSTICE

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February 8, 2013

Sent Via Email and U.S. Mail
James R. Schwartz, Esq.
Manatt, Phelps & Phillips, LLP
11355 West Olympic Boulevard
Los Angeles, CA 90064

RE: Proposed Affiliation of Hoag Memorial Hospital Presbyterian/St. Joseph Health System

Dear Mr. Schwartz:

Pursuant to Corporations Code section 5920 *et seq.*, the Attorney General hereby conditionally consents, to the Affiliation Agreement by and among Hoag Memorial Hospital Presbyterian, a California nonprofit public benefit corporation, Covenant Health Network, Inc., a California nonprofit public benefit corporation, St. Joseph Health System, a California nonprofit public benefit corporation, Mission Hospital Regional Medical Center, a California nonprofit public benefit corporation, St. Jude Hospital, a California nonprofit public benefit corporation, St. Joseph Hospital of Orange, a California nonprofit public benefit corporation, St. Mary Medical Center, a California nonprofit public benefit corporation, as set forth in the Notice filed on October 22, 2012.

Corporations Code section 5923, and California Code of Regulations, title 11, section 999.5, subdivision (f), set forth factors that the Attorney General shall consider in determining whether to consent to a proposed transaction between nonprofit corporations. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions, which are incorporated by reference herein.

Thank you for your cooperation and that of your client and St. Joseph Health System throughout the review process.

Sincerely,

[Original signed]

WENDI A. HORWITZ
Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

Attachment

Conditions to Approval of Affiliation Agreement by and between Hoag Memorial Hospital Presbyterian, Covenant Health Network, Inc., St. Joseph Health System, Mission Hospital Regional Medical Center, St. Jude Hospital, St. Joseph Hospital of Orange, and St. Mary Medical Center

I.

These Conditions shall be legally binding on Hoag Memorial Hospital Presbyterian, a California nonprofit public benefit corporation, Covenant Health Network, Inc., a California nonprofit public benefit corporation, St. Joseph Health System, a California nonprofit public benefit corporation, Mission Hospital Regional Medical Center, a California nonprofit public benefit corporation, St. Jude Hospital, a California nonprofit public benefit corporation, St. Joseph Hospital of Orange, a California nonprofit public benefit corporation, and St. Mary Medical Center, a California nonprofit public benefit corporation, (collectively referred to as the "Affiliated Entities"), any and all current and future owners, managers, lessees, or operators of Hoag Memorial Hospital Presbyterian,[1] and any and all current and future owners of the real property on which Hoag Memorial Hospital Presbyterian is located.

II.

The transaction approved by the Attorney General consists of the Affiliation Agreement dated October 15, 2012 and any other documents referenced therein including, but not limited to, the articles of incorporation and bylaws for each of the Affiliated Entities, Statement of Common Values, Governance Matrix, and Charter for the Hoag Women's Health Committee. The Affiliated Entities shall fulfill the terms of the transaction. The Affiliated Entities shall notify the Attorney General in writing of any proposed modification of the transaction, including a proposed modification or rescission of any of the terms in the Affiliation Agreement. Such notification shall be provided at least thirty days prior to the effective date of such modification in order to allow the Attorney General to consider whether the proposed modification or rescission affects the factors set forth in Corporations Code section 5923.

[1] Throughout this document, the term "Hoag Memorial Hospital Presbyterian" shall mean the general acute care hospital located at 1 Hoag Drive, Newport Beach, CA 92663 ("Newport Beach Hospital"), the general acute care hospital at 16200 Sand Canyon Avenue, Irvine, CA 92618 ("Irvine Hospital"), and any other clinics, laboratories, units, services, or beds included on the license issued to Hoag Memorial Hospital Presbyterian by the California Department of Public Health, effective December 10, 2012, unless otherwise indicated.

III.

For five years from the closing date of the Affiliation Agreement, the Affiliated Entities and all future owners, managers, lessees, or operators of Hoag Memorial Hospital Presbyterian shall be required to provide written notice to the Attorney General and obtain the Attorney General's approval at least ninety days prior to entering into any agreement or transaction to do any of the following:

(A) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of Hoag Memorial Hospital Presbyterian;

(B) Transfer control, responsibility, management, or governance of Hoag Memorial Hospital Presbyterian. The substitution or addition of a new corporate member or members of the Affiliated Entities that transfers the control of, responsibility for or governance of the Affiliated Entities shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of the Affiliated Entities, or any arrangement, written or oral, that would transfer voting control of the members of the governing body of the Affiliated Entities, shall also be deemed a transfer for purposes of this Condition.

IV.

For five years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall be operated and maintained as two licensed general acute care hospitals (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services:

a) Twenty-four hour emergency medical services as currently licensed (minimum of 58 Emergency beds/stations at the Newport Beach Hospital and 14 Emergency beds/stations at the Irvine Hospital) with the same types and levels of services as currently provided[2];

b) Intensive Care services as currently licensed (minimum of 31 beds at the Newport Beach Hospital and 12 beds at the Irvine Hospital) with the same types and levels of services as currently provided;

c) Coronary Care services as currently licensed (minimum of 12 beds at the Newport Beach Hospital) with the same types and levels of services as currently provided;

d) Obstetrical services as currently licensed (minimum of 70 beds at the Newport Beach Hospital) with the same types and levels of services as currently provided;

e) Neonatal Intensive Care services as currently licensed (minimum of 21 beds at the Newport Beach Hospital) with the same types and levels of services as currently provided; and

[2] The term "currently provided" means types and levels of services provided as of October 1, 2012.

f) Chemical Dependency Recovery services as currently licensed (minimum of 21 beds at the Newport Beach Hospital) with the same types and levels of services as currently provided;

Hoag Memorial Hospital Presbyterian shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

V.

For five years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall continue to provide rehabilitation services, laboratory services, primary care services, and outpatient imaging services, as currently licensed and with the same types and levels of services as currently provided, at locations within Orange County. Hoag Memorial Hospital Presbyterian shall continue to operate and provide the same types and levels of services as currently provided at the Mary and Dick Allen Diabetes Center.

VI.

For ten years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall continue to provide the same types and levels of Women's Health Services (except for direct abortions)[3] at the Women's Health Institute (also known as the Women's Health Services Program). The Hoag Women's Health Committee, as referenced in section 2.2.1 of the Affiliation Agreement, should oversee and approve the Women's Health Institute's budget independently of Covenant Health Network, Inc. In the event that the St. Joseph Health System's Statement of Common Values is subsequently adopted by Covenant Health Network, Inc., and made applicable to Hoag Memorial Hospital Presbyterian, Hoag Memorial Hospital Presbyterian shall take steps to insure that alternative providers are available and accessible to all women, especially low-income women, for direct abortions in the Hoag Memorial Hospital Presbyterian's service area (45 ZIP codes), as defined on page 45 of the Health Care Impact Report authored by Medical Development Specialists, LLC, dated December 28, 2012, and attached hereto as Exhibit 1, and adopt a Charter for the Hoag Women's Health Committee that shall include these requirements and the definition of direct abortion set forth in footnote 3 hereto.

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[3] The exception for direct abortions applies if, and only if, the St. Joseph Health System's Statement of Common Values is subsequently adopted by Covenant Health Network, Inc., and made applicable to Hoag Memorial Hospital Presbyterian.

The term "direct abortion" is defined by St. Joseph Health System as the directly intended termination of pregnancy before viability (24-26 weeks gestation). By way of example, miscarriages, ectopic pregnancies, and emergency services for women experiencing complications related to pregnancy termination at outside facilities, are not direct abortions.

VII.

For five years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall:

a) Be certified to participate in the Medi-Cal program.

b) Enter into CalOptima contracts that will begin no later than July 1, 2013, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services, for Medi-Cal, Healthy Families (or until it transitions to Medi-Cal), One Care (CalOptima's Medicare Advantage Special Needs Plan that includes some Dual Eligibles), and other programs for Dual Eligibles, to provide the same types and levels of emergency and non-emergency services at Hoag Memorial Hospital Presbyterian as required in these Conditions. Once entered into, the CalOptima contracts must be maintained without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause.

c) Have a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Hoag Memorial Hospital Presbyterian to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

VIII.

For five years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall maintain the following contracts and amendments, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contracts are terminated for cause, and shall provide the same services specified therein:

a) Agreement for Provision of Emergency Preparedness and Response to Disasters and Bioterrorism Services between County of Orange and Hoag Memorial Hospital Presbyterian;

b) Agreement for Provision of HIV Health Care Services between County of Orange and Hoag Memorial Hospital Presbyterian;

c) Agreement for Provision of Hospital Services for the Medical Services Initiative Program between County of Orange and Hoag Memorial Hospital Presbyterian, Inc.- Newport Beach and Irvine (or until Orange County Medical Services Initiative Program transitions to CalOptima, whichever occurs earlier); and

d) Agreement for the Provision of Indigent and Trauma Care between County of Orange and Hoag Memorial Hospital Presbyterian, Inc. - Newport Beach and Irvine.

IX.

For six fiscal years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall provide an annual amount of Charity Care (as defined below) at Hoag Memorial Hospital Presbyterian equal to or greater than $9,261,000 (the "Minimum Charity Care Amount"). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Hoag Memorial Hospital Presbyterian in connection with the operation and provision of services at Hoag Memorial Hospital Presbyterian. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.[4] Hoag Memorial Hospital Presbyterian shall use charity care and collection policies that comply with Federal and California law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Hoag Memorial Hospital Presbyterian shall be decided upon by the Hoag Memorial Hospital Presbyterian Board of Directors.

Hoag Memorial Hospital Presbyterian's obligation under this Condition shall be prorated on a daily basis if the closing date of the Affiliation Agreement is a date other than the first day of Hoag Memorial Hospital Presbyterian's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of charity care provided at Hoag Memorial Hospital Presbyterian for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Hoag Memorial Hospital Presbyterian shall pay an amount equal to the deficiency to one or more of the following for direct health care services to residents in Hoag Memorial Hospital Presbyterian's service area (45 ZIP codes), as defined on page 45 of the Health Care Impact Report, dated December 28, 2012, and attached hereto as Exhibit 1: St. Joseph Health System's "Care For the Poor" program, the Hoag Hospital Foundation, or a tax-exempt entity. Such payment shall be made within seven months following the end of such fiscal year.

The 2011 Federal Affordable Care Act may cause a reduction in future needs of charity care. Any such reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h).

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[4] OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as. . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

X.

For six fiscal years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall provide an annual amount of Community Benefit Services at Hoag Memorial Hospital Presbyterian equal to or greater than $9,500,000 (inclusive of in-kind services) (the "Minimum Community Benefit Services Amount"). The planning of, and any subsequent changes to, the community benefit services provided at Hoag Memorial Hospital Presbyterian shall be decided upon by the Hoag Memorial Hospital Presbyterian Board of Directors.

Hoag Memorial Hospital Presbyterian's obligation under this Condition shall be prorated on a daily basis if the effective date of the Affiliation Agreement is a date other than the first day of Hoag Memorial Hospital Presbyterian's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at Hoag Memorial Hospital Presbyterian for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Hoag Memorial Hospital Presbyterian shall pay an amount equal to the deficiency to one or more of the following for community benefit services for residents in Hoag Memorial Hospital Presbyterian's service area (45 ZIP codes), as defined on page 45 of the Health Care Impact Report, dated December 28, 2012, and attached hereto as Exhibit 1: St. Joseph Health System's "Care For the Poor" program, the Hoag Hospital Foundation, or a tax-exempt entity. Such payment shall be made within seven months following the end of such fiscal year.

The 2011 Federal Affordable Care Act and the Share Our Selves clinic becoming a Federally Qualified Health Center may cause a reduction in future needs of community benefit services. Any such reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h).

XI.

For six fiscal years from the effective date of the Affiliation Agreement, Covenant Health Network, Inc. shall submit to the Attorney General, no later than seven months after the conclusion of each fiscal year, a report describing in detail the specific steps taken by Covenant Health Network, Inc. to create an integrated community health care system to improve health care delivery and provide greater access to high quality, dependable, affordable and compassionate health care and health-care related services, and the health care status of the community it serves, especially to its most vulnerable members. Such report shall include a summary of all of the following:

a) Such report should include actions taken to coordinate with the County of Orange Health Care Agency, CalOptima, and other governmental and health care entities;

b) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to meeting the "Mission Objectives" set forth in 1.2 of the Affiliation Agreement;

c) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to accomplishing Covenant Health Network Inc.'s primary purpose set forth in section 2.1.3 of the Affiliation Agreement;

d) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to addressing the five "Moral Imperatives" and the elements in the "Future State" Approach in Exhibit A of the Affiliation Agreement and as discussed below:

i) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to alleviating health disparities within the community Covenant Health Network, Inc. serves;

ii) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to improving the health care status of poor and vulnerable populations within the community Covenant Health Network, Inc. serves, including Orange County Medical Services Initiative patients, Medi-Cal patients, uninsured, children, homeless, and other vulnerable populations;

iii) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to improving infrastructure gaps in the community Covenant Health Network, Inc. serves, including those related to community clinics (including individual free-standing and non-Affiliated Entities clinics), Federally Qualified Health Centers, medical homes, and other health centers;

iv) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to implementing a population health management infrastructure and strategy within the community Covenant Health Network, Inc. serves; and.

v) Actions taken and resources, including, but not limited to financial support (capital and operating funds), dedicated to improving stewardship over its healthcare services and activities to reduce operating costs and redundant costs within the community Covenant Health Network, Inc. serves.

The Chairman of the Board of Directors of Covenant Health Network, Inc. and the Chief Executive Officer of Covenant Health Network, Inc. shall each certify that the report is true and correct and provide documentation of the review and approval of the report by the Covenant Health Network, Inc. Board of Directors.

XII.

For six fiscal years from the closing date of the Affiliation Agreement, Hoag Memorial Hospital Presbyterian shall submit to the Attorney General, no later than seven months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of Hoag Memorial Hospital Presbyterian and the Chief Executive Officer at Hoag Memorial Hospital Presbyterian shall each certify that the report is true and correct and provide documentation of the review and approval of the report by the Hoag Memorial Hospital Presbyterian Board of Directors.

XIII.

At the request of the Attorney General, the Affiliated Entities shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XIV.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

Exhibit 1

ANALYSIS OF HOAG'S SERVICE AREA

Hoag's Service Area Definition

Hoag's service area is composed of 45 ZIP Codes, from which approximately 81% of the Hoag's discharges originated in 2011. Nearly 50% of the Hoag's discharges were from the top eleven ZIP Codes, located in Newport Beach, Huntington Beach, Irvine, Costa Mesa, and Fountain Valley. Hoag's market share in the service area was nearly 17%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2011

ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
92627	Costa Mesa	2,471	9.3%	9.3%	4,920	50.2%
92646	Huntington Beach	1,676	6.3%	15.6%	5,016	33.4%
92626	Costa Mesa	1,656	6.2%	21.8%	4,085	40.5%
92660	Newport Beach	1,516	5.7%	27.5%	2,614	58.0%
92648	Huntington Beach	1,098	4.1%	31.7%	3,831	28.7%
92663	Newport Beach	913	3.4%	35.1%	1,516	60.2%
92647	Huntington Beach	859	3.2%	38.3%	5,341	16.1%
92620	Irvine	749	2.8%	41.1%	2,373	31.6%
92649	Huntington Beach	699	2.6%	43.8%	2,965	23.6%
92612	Irvine	679	2.6%	46.3%	1,586	42.8%
92708	Fountain Valley	650	2.4%	48.8%	5,303	12.3%
92604	Irvine	615	2.3%	51.1%	1,716	35.8%
92625	Corona Del Mar	604	2.3%	53.4%	968	62.4%
92614	Irvine	489	1.8%	55.2%	1,299	37.6%
92683	Westminster	440	1.7%	56.9%	7,913	5.6%
92603	Irvine	400	1.5%	58.4%	920	43.5%
92656	Aliso Viejo	374	1.4%	59.8%	3,096	12.1%
92618	Irvine	350	1.3%	61.1%	993	35.2%
92606	Irvine	349	1.3%	62.4%	1,096	31.8%
92602	Irvine	333	1.3%	63.7%	1,069	31.2%
92782	Tustin	326	1.2%	64.9%	1,327	24.6%
92657	Newport Coast	318	1.2%	66.1%	606	52.5%
92630	Lake Forest	315	1.2%	67.3%	4,739	6.6%
92704	Santa Ana	288	1.1%	68.3%	6,674	4.3%
92780	Tustin	287	1.1%	69.4%	4,344	6.6%
92677	Laguna Niguel	280	1.1%	70.5%	4,983	5.6%
92651	Laguna Beach	265	1.0%	71.5%	1,958	13.5%
92637	Laguna Woods	220	0.8%	72.3%	4,323	5.1%
92707	Santa Ana	206	0.8%	73.1%	4,680	4.4%
92705	Santa Ana	204	0.8%	73.8%	3,533	5.8%
92661	Newport Beach	184	0.7%	74.5%	260	70.8%
92692	Mission Viejo	171	0.6%	75.2%	3,914	4.4%
92653	Laguna Hills	168	0.6%	75.8%	2,784	6.0%
92869	Orange	167	0.6%	76.4%	2,901	5.8%
92691	Mission Viejo	153	0.6%	77.0%	4,352	3.5%
92662	Newport Beach	145	0.5%	77.6%	227	63.9%
92688	Rancho Santa Marg	142	0.5%	78.1%	2,922	4.9%
90740	Seal Beach	137	0.5%	78.6%	3,269	4.2%
92679	Trabuco Canyon	117	0.4%	79.0%	1,775	6.6%
90803	Long Beach	117	0.4%	79.5%	2,826	4.1%
92629	Dana Point	114	0.4%	79.9%	2,568	4.4%
92867	Orange	110	0.4%	80.3%	3,050	3.6%
92617	Irvine	87	0.3%	80.7%	271	32.1%
92861	Villa Park	45	0.2%	80.8%	528	8.5%
92655	Midway City	31	0.1%	80.9%	917	3.4%
Subtotal		**21,517**	**80.9%**	**80.9%**	**128,351**	**16.8%**
Other ZIPs		5,065	19.1%	100.0%		
Total		**26,582**	**100.0%**			

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database

MDS
MEDICAL DEVELOPMENT SPECIALISTS
consulting